

ITALIAN AID POLICIES AT A GLANCE AUGUST 2009 ODA IN 2009 AFTER THE G8 SUMMIT

SUMMIT PROMISES

At the G8 summit, Prime Minister Berlusconi reaffirmed his commitment to meeting the aid pledges which Italy endorsed over the past few years. At the press conference of July 9th, he confirmed the disbursement of the Italian contribution to the Global Fund to fight AIDS Tuberculosis and Malaria - 130 million euro + additional 30 million euro to fill the Fund 2009 financial gap - by the end of August; the Prime Minister's statements were not entirely clear as dollars were mentioned instead of euro. Moreover, Italy is reported to have committed a total of USD 450 million over three year as its share of the 20 billion dollar G8 pledge to mobilize funds for a global response to the food crisis.

The G8 Summit Aquila Food initiative is expected to secure USD 20 billion over the next three years to face the growth in the number of the hungry in the world. The Italian commitment is a small one compared to the 3,5 billion announced by the US government or to the 3 billion from the Japanese administration. The Italian expected annual contribution equals USD 150 million; since June 2008, Italy has disbursed USD 271 million in aid for agriculture, which means 180 million over 12 months. These numbers are a source of concern about the additional nature of the commitment by the Italian government. Eventually, on July 28th, the Government agreed to a Parliamentary motion which calls for the increase in the Italian contribution to the L'Aquila food security initiative.

ITALIAN AID RECOVERY PLAN STILL AT BAY

The Italian Government's announcements on aid can be seen as a response to the media campaign which culminated in the last few weeks to the Summit. The international media message was simple: Italy lacked the legitimacy to chair a Summit African session due to the grave cuts in aid. **Italian aid is estimated to shrink from 0.22% ODA/GNI in 2008 to 0,15% - 0,17% in 2009 in the light of the current GDP forecasts, where the upper level might possible if IDA instalments were paid in time.**

Prime Minister Berlusconi acknowledged Italy's delay in meeting aid commitments and argued this is mainly due to the economic crisis and the L'Aquila earthquake. On the eve of the Summit, in a meeting with the Italian civil society G8 platform (The Italian coalition against poverty), he admitted that he has no political and financial space for acting on aid quantity since all main financial decisions are subject to the Finance Minister's approval; unfortunately, the latter has a nationally oriented agenda. In the same meeting, Berlusconi hinted at a proposal on a **recovery plan for Italian aid**: a sort of an enhanced timetable to bring the Italian ODA back in line with the targets agreed internationally by providing earmarked State budget revenues; such a plan had been the priority ask pushed by Italian NGOs. This recovery plan was then confirmed in the interview with Bob Geldof published on July 5, where Berlusconi said that Finance Minister Tremonti himself committed to realigning Italian ODA within the space of three years.

Aid advocates were reassured and development cooperation civil servants submitted concrete proposals on a recovery plan. But there is no official document supporting the Prime Minister's commitments. In reality, the Summit did not add substance to these promises; on the contrary, a press release by Minister of Foreign Affairs (MFA) Franco Frattini included references only to the 2015 EU ODA target (0.7% ODA/GNI) with no mention of the 0.51% ODA/GNI by 2010. More worryingly, the Government asked MPs to drop a 15 month deadline for a modest 60 million increase in the MFA aid envelope - equalling the 2006-2008 appropriation - off a Parliamentary motion on the G8 conclusion if they wanted to get the Government's support.

FINANCIAL PERSPECTIVE 2010 – 2013

In the wake of Summit, the Italian Government approved the **Financial Perspective 2010-2013** paper: there is no tangible reference to aid increases. The Ministry for Foreign Affairs' annex to the

Financial Perspective mentions the need for a re-alignment plan of the Italian aid, yet this suggestion did not pass into the final document.

The Financial perspective does not even mention **De-tax**, namely the initiative on innovative financing sponsored by the Minister of Finance since 2002. *De-tax* aims at generating resources from consumer transactions: money will be coming from 1% of VAT on items purchased at shops participating in this scheme when consumers agree to allocate this money to a development initiative, which has in turn to be officially supported through the scheme and the shop in case. VAT money can be matched by voluntary contributions from the business partners involved; health programmes are the main targets at the moment. A Ministry of Finance working group is sketching the technical details so as to table a pilot *De-tax* operational plan by mid-September. On May 29th, Italy officially presented this proposal to the Task Force on Innovative financing for health systems.

De-tax success depends on the number of participating business partners and the level of consumers' support. In Italy, *De-tax* was launched on a pilot basis in 2003 for three years with an overall financial coverage of 11 million euro. The initiative never got off the ground; it has now been re-proposed but its implementation might be in contrast with the international principles of aid effectiveness with the risk of increasing transaction costs and aid fragmentation.

To sum up, the budget appropriation session just started is not making provision for an increase in ODA levels, which currently reflect the 56% cut in the Ministry of Foreign Affairs (MFA) managed aid (about 23% of on-budget ODA). **If no change in the current financial legislation is passed, the MFA aid will face a further 33% reduction in 2011, after a minimal increase in 2010.**

AID ADJUSTMENTS FROM THE BEGINNING OF THE YEAR

No major changes in aid appropriation have occurred since the initial budget was enacted.

In February, after bipartisan Parliamentary consensus reversing a proposal tabled by the Government, a bill on "extending the Italian military missions abroad for six months" appropriated 45 million euro for MFA's managed development activities in conflict countries such as Afghanistan, Somalia, Iraq and Sudan. In July, a new bill extending military missions by four months was tabled, including 28 million euro for development cooperation activities to be managed by a special task-force within the Ministry of Foreign Affairs, by-passing the Directorate for development cooperation.

In July, the Government also sponsored a bill on an Italian economy recovery package, which also officially commits 284 million euro to the World Bank as the first Italian instalment for IDA 15. Money will be transferred to the Bank when available and the actual disbursement may well take place in 2010 according to the Financial Perspective – adding 0.018% ODA/GNI to the poor Italian aid score in 2010. This appropriation is the result of the World Bank pressure: Italy was the only IDA main donor not having authorised any financial disbursement. Yet, the appropriation is no guarantee of actual disbursement: Italy has still to give the last 137 million euro instalment for the previous IDA replenishment cycle. Italy has also to start paying instalments to all other development funds, where Italy totally pledged around 1,2 billion euro.

Despite in-year budget increases, **Italian ODA faced minor cuts during the first semester** – totalling around 3.5 million euro: a 1 million through the mid-year budget review and 2.5 million to meet the financial commitments of the Italy-Israel technical cooperation Treaty.

In the same semester, Italy approved the Libya Treaty and asked DAC to clarify the ODA eligibility of the Treaty obligations, which binds Italy to funding activities worth 2.5 billion euro over 20 years as a pay-back for the colonial domination. DAC excluded any ODA eligibility of refunding expenditures.

AID QUALITY AND EFFECTIVENESS

While facing a standstill on aid quantity, management reforms and strategies for Italian development cooperation gained momentum. In December 2008, the new three-year strategy for Italian development cooperation set aid effectiveness as its main focus area. The established output was to approve a national plan, including all management and strategic reforms needed to comply with the international agenda on aid effectiveness.

On July 14th, the Steering Committee of the Italian development cooperation, chaired by the Ministry for Foreign Affairs, Hon. Franco Frattini, officially approved the **Italian Plan on Aid effectiveness**. It is a 11 page document, including 26 specific reforms to be implemented by the Directorate General for development cooperation (DGCS). This is the first comprehensive politically binding document attempting to translate international aid effectiveness commitments into internal actions. Unlike other donors, no Italian aid-effectiveness plan followed the 2005 Paris Declaration. The drafting of the plan started in January 2009, fully involving Italian civil society organizations in the aid effectiveness task team. The six month exercise was speeded up by the international pressure arising from the G8 Presidency and the DAC peer review. Although based on a participatory process, the Plan is the result of an Head Quarters led effort with no actual involvement of the field offices. While this HQs approach is in contrast with the Paris Declaration principles, the Italian aid system is still too centralized and the aid effectiveness agenda is so marginal in the field work that any serious push to reform had to stem from the Head Quarters. The Plan was strongly pushed by parts of the middle level management, succeeding at channelling the issue at higher political level.

The Plan implementation is a most critical element as the actions approved are to change business-as-usual aid management approaches. Plan implementation is likely to face resistance at Head Quarters as well as at field level, requiring a continuous engagement of the political leadership. Nine working groups are to be established in early August to carry out Plan's tasks by the agreed deadlines. By next February, all tasks are scheduled to be fully accomplished. On the positive side, the recommendations of the Italian Peer review and the Fourth International High Level Forum on aid effectiveness could provide some hooks to keep the political interest on aid effectiveness.

As for the plan contents, during the approval, the Steering Committee debated the extent of **further aid untying**. Civil society organizations had asked for ambitious targets on concessional loans and food aid untying as Italy is generally among the worst EU donors in terms of tying. This bad record is mainly due to the Italian international cooperation legislation which requires that all concessional loans have to be tied unless special waivers are issued. Over time, by complying with the 2001 and 2008 OECD/DAC recommendations on aid untying, waivers turned permanent for the HIPC and the Least Developed Countries. Nevertheless, according to the last DAC report on implementing the 2001 recommendations, in 2007 only 53% of Italian aid bilateral commitments to LDCs were untied, pushing Italy to the bottom of the DAC donors list. After discussions, the Plan limited its ambitions to scope ideas for further untying, excluding any change or amendment to the Italian Law on international cooperation.

As for the plan implementation, internal discussions and proposals are quite advanced in some areas. These include updating sector guidelines, procedural streamlining and multi-year country planning. On the other hand, there are elements that could weaken the implementation of the aid-effectiveness principles. The new evaluation unit – re-established after 2 year all posts were vacant - has no budget to commission independent external evaluations. Lack of political will and budget resulted in a complete stop of any independent evaluation activity by the Italian development cooperation since 2002. In addition, the Directors of the local Italian Cooperation offices were recently stopped from hiring staff in a decentralized way. This is another bad sign, slowing down further decentralization, which should be aimed at enabling strategic decision-making at country level.

More on aid effectiveness, last March, the DGCS approved a first **multilateral donor strategy** to streamline the Italian engagement towards multilateral organisations. The main criteria for receiving Italian aid include being an Italian-based international organization. The number of multilateral organisations financed by Italian cooperation decreased from 63 in 2007, to 50 in 2008, with the new strategy aiming at 40. The multilateral strategy makes no reference to the need to objectively assess the effectiveness of each multilateral organisation and to guarantee aid predictability. It commits to set specific strategies for those organisations whereby the Italian contribution is over 10 million euro. The Plan on aid effectiveness commits Italy to taking part in multi-donor aid effectiveness assessments on multilateral organisations, financed by the DGCS (Development cooperation directorate). In 2004, DAC recommended that the Ministry of the Economy and Finance should also increase its capacity in terms of monitoring the efficiency of its multilateral investments towards development banks and funds.

The work on aid effectiveness was also pushed by increasing international pressure on the Directorate General for development cooperation, mainly through **the DAC Peer review**. The DAC reviewers team – consisting of the DAC secretariat, France and Greece – visited the Rome Head Quarters in mid-May and then went on a field visit to Lebanon at beginning of July. On both occasions, the team established links with civil society organizations and engaged in fruitful exchange, eased by the transparent working method NGO and Directorate General had agreed on in memorandum of understanding. The DAC will submit its first draft report by mid September.

AID MANAGEMENT AND ALLOCATION

A government sponsored minor legislative reform has enabled Italy to fully partake in the implementation of the EU code of conduct on division of labour, by allowing Italy to manage the EU partners financial resources within the European delegated cooperation framework. The same law (act n° 69/2009, art 13) also provides for the simplification of accounting and management in emergency operations in order to speed up Italian responsiveness. The Parliament broadened the scope of the norm to encompass those partner countries having signed **migration control and repatriation agreements**. This move is infringing the main objectives of the Italian development cooperation, as listed by the International Cooperation law, and risks reducing the poverty-focus and poverty alleviation target of Italian aid. From an administrative perspective, aid activities will be more manageable in those countries signing up at the migration control treaties.

As for procedural red-tape, the last audit report by the General Audit Office makes clear that lack of special accounting procedures for development cooperation activities is among the main obstacle towards a multi-year forwarding spending and on-time disbursement.

Law 69/2009 could further reduce Italian aid allocations to Sub-Saharan Africa. The share of Italian aid to the region is constantly decreasing since 2005, reaching just 18% of total bilateral aid in 2008. In 2009, contrary to the new three year strategy – allocating 50% of new aid initiatives to Sub-Saharan Africa-, the regional quota shrank to 11% of new aid commitments approved until the G8 Summit. This figure is a good example of the Italian administrative obstacles to turn aid strategies into new aid practices and it sounds as a warning on the actual impact of the newly produced policy papers.

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Suggestions and comments are more than welcome. Contact the AA team by writing to: iacopo.viciani@actionaid.org;